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The Hog Industry in 2005

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CORNHUSKER ECONOMICS

January 4, 2006

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://agecon.unl.edu/pub/cornhusker.htm>

University of Nebraska–Lincoln Extension

The Hog Industry in 2005

The hog industry enjoyed a remarkable year in 2005. The USDA, December 1st Hog and Pig Report estimated the market herd at 100.3 percent, breeding herd at 100.7 percent, and total herd at 100.4 percent of December 1, 2004 numbers. For the third year in a row, producers increased production while receiving profitable prices.

Part of the reason for profits in spite of year-over-year increases in production is the export market. Usually increased production combined with declining domestic demand would drive live hog prices down sharply. Exports, while able to absorb a portion of typical production increases, would not normally offset year-over-year increases when combined with declining domestic demand.

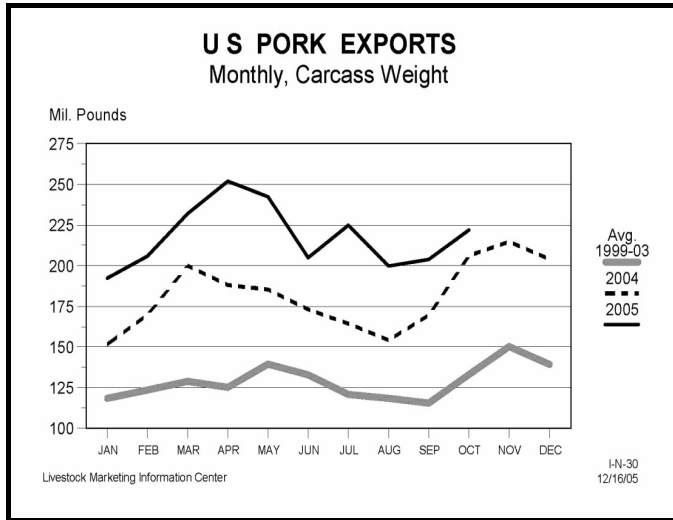
But 2003 did not end as any normal year. As the pork export chart shows, exports were far above average levels in 2004. The increases year-over-year continued into 2005. With the last data to be added, there is little doubt that pork exports were again the demand difference in the pork industry.

This would be good news indeed if this were a normal market development. But, it is not. The announcement of BSE in the U.S. and subsequent banning of beef exports contributed to the surge in pork exports. During 2004, protein diet fads also added to domestic demand, creating the best of both worlds for pork. However, domestic demand for pork at the consumer level declined in 2005. At the consumer level, for January - November the demand was down 4.7 percent, and for the 3 month period of September

Market Report	Yr Ago	4 Wks Ago	12/30/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$86.57	\$93.33	\$93.38
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	116.56	134.41	138.50
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	109.19	*	116.27
Choice Boxed Beef, 600-750 lb. Carcass	143.43	150.80	158.19
Western Corn Belt Base Hog Price Carcass, Negotiated	66.75	60.58	57.41
Feeder Pigs, National Direct 45 lbs, FOB	61.91	57.72	57.52
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	70.68	67.67	64.11
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	94.00	87.00	79.00
National Carcass Lamb Cutout, FOB	244.55	243.77	241.32
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.38	*	*
Corn, No. 2, Yellow Omaha, bu	1.77	1.79	1.94
Soybeans, No. 1, Yellow Omaha, bu	5.24	5.48	5.75
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.59	2.46	2.79
Oats, No. 2, Heavy Minneapolis, MN , bu	1.80	2.19	2.19
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	117.50	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	37.50	65.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	52.50
* No market.			



– November demand for pork was down 6 percent from the same time periods in 2004.



Looking at the monthly Lean Hog futures contracts, we can see the influence of these demand issues as they drove live hog prices. While prices responded normally in 2003, they increased to around \$67.50 cwt. (lean hog carcass value) as a summer high. But by year-end, prices had dropped back to the \$50.00 cwt. range. Increasing production seemed to be holding hog prices in check.

market remained in the \$70.00 cwt. to \$80.00 cwt. range through mid 2005. We closed 2005 with the announcements of resumption of beef exports. In addition, periodic weakness in poultry exports during this 18 to 24 month period may have contributed as well.

The prices of the last half of 2005 reflect the decrease in domestic demand. The good news is that these are still very good prices and producers can lock in profits for 2006. Using the December 30th close and an average basis of -\$2.00 throughout all contracts, a producer with a breakeven of \$40.00 cwt. live weight would be able to lock in around \$5.97 per cwt. for 2006. With a 270 lb. hog, this would result in over \$16.00 profit.

The last point for 2006 is the timing of serious competition from the beef industry. In an earlier *Daily Livestock Report*, Meyers and Steiner noted, “U.S. beef packers do not see the resumption of beef exports to Japan to have much of an impact until later in 2006.” I couldn’t agree more, but later in 2006 will be very poor timing for the pork industry if production continues to increase.

This year will be a good year to have risk management plans in place. Executing them earlier rather than later may also make 2006 a more profitable year.



Then the BSE announcement and hog prices increased to the \$80.00 level within a few months in 2004. Ignoring production increases again in 2004, the

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